Q2 2021 EARNINGS CONFERENCE CALL

Management Prepared Remarks

Idalia Rodriguez, Partner at Arbor Advisor Group

Thank you. Joining me on the call today are David Steinberg, Zeta's Co-Founder, Chairman and CEO; and Chris Greiner, Chief Financial Officer.

Before we begin, I'd like to remind everyone that statements made on this call contain forward looking statements. The same forwarding-looking statement notices found on the 8-K and Earnings Release filed with the SEC apply to this call as well and can be found on the IR portion of Zeta's website.

In addition, our discussion today will include references to certain supplemental non-GAAP financial measures, which should be considered in addition to and not as a substitute for our GAAP results. Reconciliations to the most comparable GAAP measures are available in today's 8-K and exhibited materials, which are available on our Investor Relations website at investors.zetaglobal.com.

Now I'd like to turn the call over to David Steinberg. David?

David A. Steinberg, Co-Founder, Chairman and CEO

Thank you so much. Good afternoon and thank you for joining Zeta's first earnings call as a public company. We appreciate your interest.

Before we dive into the details of our very strong second quarter, I'd like to take a few minutes to talk about Zeta – who we are, what we do, how our technology platform is unique and valuable in the marketplace, and why we're excited about the accelerating momentum of our business.

What do we do? Fourteen years ago, my partner John Sculley and I set out to build a next generation marketing platform to help brands acquire, grow and retain customers more efficiently and effectively. The mission is more critical today than ever before. Modern marketers are struggling to keep up with the rapid pace of digital innovation and are seeking solutions that help them get to market quickly, identify and engage their target customers with precision, deliver personalized experiences across all channels and improve ROI with sophisticated deterministic measurement that comprehends the impact of every program. That is what our tech stack, the Zeta Marketing Platform or ZMP, was purpose built to develop and deliver. In fact, a recent study by Forrester has proven something that we have known for some time. Enterprise marketers taking advantage of the ZMP's identity-based, omnichannel activation capabilities achieve 50% better results than without it.

The ZMP is rooted in our proprietary data – we've made a number of high impact acquisitions to build over time one of the largest opted-in identity-based data sets in the world. On top of this identity bedrock, we've built a patented artificial intelligence engine that analyzes billions of structured and unstructured data

signals to discern consumer intent in a way never before possible, which allows us to create higher-value audiences that unlock new possibilities for personalized, omnichannel engagement. In Q2, our data set expanded from 500 million to over 515 million individuals globally and from 220 million to over 225 million in the US alone. We combine our proprietary data with first party data provided by our customers to understand unique insights, uncover new use cases, and accelerate growth for many of the world's largest brands.

However, data is not our product. Data is the electricity that powers our software business. Our customers use the ZMP to orchestrate and execute targeted marketing programs across all addressable channels. The patented AI at the core of the ZMP gets smarter over time, enabling our customers to achieve both greater scale and higher ROI – a rare and powerful combination. We believe this drives strong retention as well as 'expand and extend' sales motions. Our annual net retention rate for our largest customers was 122% in 2020, up from 104% in 2019. Today, we serve a diverse customer base including 1 in 3 Fortune 100 enterprise customers across a variety of vertical markets, with no one customer accounting for more than 7% of revenue and no one industry accounting for more than 14% of revenue in Q2.

Our customers consist of many of the world's most well-known blue-chip brands across every major industry vertical. Enterprise customers choose Zeta for our ability to help them deepen connections with their customers. The ZMP creates a true 360-degree view of the consumer, enriched with our proprietary data signals, while keeping Zeta's and each customer's data technically separated, a key differentiator in the end market. This provides enterprises with a single source of truth that improves their understanding of consumer needs, attitudes and behaviors far beyond what they could derive on their own.

Each month, in the U.S. alone, our platform analyzes over 50 billion webpages and online discussion forum interactions, 3 billion visits to real-world locations, over 1 billion purchase signals and up to 2,500 demographic and behavioral attributes to determine behavioral intent at an individual deterministic level so that our customers can deliver the right message to the right consumer at the right time. Because the market is constantly evolving, the ZMP is flexible so it can respond quickly to technological advances and seamlessly connects with emerging digital platforms and new services. For example, CTV is our fastest growing channel, growing by almost 500% year over year in Q2.

From a demand standpoint, we're seeing an acceleration in the pace of digital transformation in marketing and the adoption of data-driven marketing. We're seeing a digitization of marketing channels; the growing importance of identity-based and deterministic targeting data, and an increased demand for measurable marketing spend ROI. We believe we're seeing the market come to us and I'm confident that the investments we've made over the last 2 years – and continue to make - position us to capitalize from these tailwinds.

Last year, we successfully launched Opportunity Explorer, a campaign planning tool that provides brands with proprietary insights on segments and personas, in conjunction with a comprehensive view of available addressable channels for each consumer target. We are able to stand up instances of the Opportunity Explorer in a matter of days and it now serves as an effective go-to-market wedge product for net new customer acquisition as well as a gateway for broader platform adoption.

Chris and our President & COO Steve Gerber have done an exceptional job this past year in expanding and reorganizing our sales organization to support accelerating growth across multiple dimensions. In readying to scale our growth even more aggressively, I'm proud to announce that we have hired Zeta's first Chief Marketing Officer. Crystal Eastman has joined us in June from The Trade Desk, where she was Head of Global Marketing. Through that senior role and other senior marketing roles she has held throughout her career at American Express and BlackRock, Crystal deeply understands the increasingly sophisticated needs of enterprise marketers. I'm thrilled to welcome Crystal to our team.

Before I turn it over to Chris to fully walk you through the numbers, let me touch on some highlights. Q2 capped a very strong first half for Zeta. During the quarter we delivered:

- Record revenue for a second quarter of $106.9 million, an increase of 39% year over year, compared to revenue growth of 25% year over year in Q1

- Solid profitability on a non-GAAP basis with adjusted EBITDA of $11.4 million, adjusted EBITDA year over year growth of 106%, and an adjusted EBITDA margin of 11%

Since the beginning of the year, our revenue growth expectations for the second half of the year have improved, driven by a more favorable outlook and our high level of revenue visibility. During Q2 we won business with over 30 new customers while simultaneously achieving record net revenue retention rates for total Zeta and Zeta's scaled customers. The sum of Zeta's parts – our marketing cloud, data cloud and activation capabilities – is resonating with customers and differentiating us from competitors.

We're also significantly accelerating momentum in product innovation and customer wins, which establish a strong foundation for future growth. Let me expand on each and share some highlights.

First, our recent product advancements.

- We've made our CTV offering even more sophisticated with CTV Genre and Content Targeting, which allows marketers to reach their target audiences in specific context within specific shows. This solves for a key barrier to entry as linear buyers contemplate the shift to CTV, as TV buyers have been accustomed to control at the content level.

- We've also developed a CTV Content Consumption Household Index to provide clients with deep insights into what content their target households are watching to inform their go forward media plans and creative strategy. Our CTV enhancements this quarter provide a unique and differentiated combination of actionable insights and activation controls that will accelerate advertisers' shift from linear to CTV, and improve ROI for Zeta customers in this increasingly important marketing channel.

- We continued to scale our identity graph, adding 5 million consumers, bringing our precision reach to 225 million in the United States. We also continued to fortify our deterministic graph, which as reminder, is not reliant on 3rd-party cookies. And we launched a new identity resolution service that acts as the backbone for ensuring addressability and accuracy in how we apply Zeta's data and AI to individuals' intent in our predictive campaign recommendations. We will continue to invest in the resilience of our identity solution – which is the core of the Zeta Marketing Platform – to ensure we are future-proofed for the evolution of the digital landscape.

- Lastly, we've created a new way for brands to rapidly onboard their first party data and a faster, more automated path to campaign activation. This new functionality, which we call "low code onboarding" eliminates the implementation dependency on enterprise IT resources and reduces our time to get started with new customers from weeks or months to mere days. With more and more brands looking to maximize their use of 1PD to power more effective acquisition and engagement programs, we are well positioned to be the partner of choice as they embark on their digital transformations.

Now I'd like to share a few of our notable customer wins in Q2:

- First, with respect to our omnichannel capabilities: A long-standing insurance customer that's worked with us in email and messaging for 5+ years expanded across paid channels in Q2. Leveraging the same targeted audiences and campaign infrastructure, the customer worked seamlessly through the ZMP to expand reach and improve impact. We forecast this relationship expansion to increase this

customer's ARPU by up to 20%. We believe this model could be repeated and scaled across more than 50% of our customer base in the next 18-24 months.

- Second, with respect to how we win with Opportunity Explorer: Using the first party data of a major retailer, we were able to isolate browsers from buyers and retarget them across multiple channels through an AI-powered trigger-based program. This solution displaced a major competitor and put this retailer on a path to becoming one of our largest customers in 2022.

- Third, with respect to the CDP: A longstanding travel client, who had primarily focused on omnichannel activation but relied on a third-party legacy database services model, were aligned with our vision of moving into an omnichannel model driven by a single view of the consumer but challenged us to onboard and migrate within eight weeks. Through the Data Conductor, the low code solution I mentioned we launched earlier, we were able to ingest all data feeds and stand up a world class CDP in a week so that they could capitalize on post-COVID bookings.

- Finally, we announced a new partnership with Dun & Bradstreet to bring our core solution to the B2B market. As part of the agreement, D&B will become a multi-year important scaled customer. They looked at every competitor in the marketplace and ultimately chose Zeta because of the capabilities of our software, our data, our ability to combine data inflows seamlessly, our omni-channel marketing platform capabilities, and our ability to deliver measurable results.

In summary, it's been an exciting last few months for Zeta. Our recent IPO marks a new and exciting chapter, providing us with additional capital to further strengthen our platform for our blue-chip clients, as well as attract and retain more talent. We're proud of the results we've delivered to date; we're even more excited about our future as we continue to execute strongly upon our strategic growth plan.

I would like to really thank the Zeta team for everyone's hard work, dedication and perseverance. I'd also like to thank our customers, partners, and investors for the support they've given us throughout this journey.

And with that, let me hand it off to Chris to discuss our results in greater detail. Chris?

Chris Greiner, CFO

Thank you and good afternoon everyone.

Let me start off by echoing David. I too, am incredibly excited for Zeta's next chapter as a public company and couldn't think of a better way to begin our journey than with announcing our very strong second quarter 2021 results.

Across the board we saw strong, broad-based execution, building upon our momentum from the first quarter and leading to an improved outlook for the year in both revenue and adjusted EBITDA.

We are seeing a positive shift in revenue mix, further improvement in ARPU, and increasing win rates, all of which are the result of continued investment in our platform, data sets and sales team. This is best illustrated through how our core growth drivers contributed to this quarter's results of 39% revenue growth and 106% adjusted EBITDA growth.

I'll first cover key elements of our second quarter results before diving into our core growth drivers and the performance metrics that powered our progress toward our long-term growth and profitability targets.

We delivered $106.9M in revenue during second quarter, up 39% year to year and up 5% compared to the first quarter. Scaled customer growth, APRU expansion, record net revenue retention and ramping sales productivity from our hunters and farmers all contributed to this quarter's results, each of which I'll discuss in more detail shortly.

From a revenue mix perspective, we continued to drive a higher percentage of our revenue direct on the Zeta Marketing Platform or ZMP, increasing revenue mix to 77%, up from 74% in Q1 and 68% ending 2020.

Also in the second quarter, our percentage cost of revenue - excluding depreciation and amortization was 39.2% as compared to 38.0% last year and 38.4% in the previous quarter. Over the full year of 2021, we are on track with our goal of driving at least 75% of our revenue direct from owned and operated ZMP channels. We expect meeting this goal to produce at least a 100-basis point reduction to our percentage cost of revenue in full year 2021 versus 2020.

Our revenue results drove strong operating leverage through our expense structure, even with our incremental investment in sales and innovation. Our operating expense for the quarter includes stock compensation expense and one-time IPO related expenses, which are considered addbacks for our non-GAAP measure of adjusted EBITDA. Excluding the stock-based compensation and one-time IPO related expenses, we realized scalable efficiencies year to year in G&A, Sales and Marketing and R&D.

- G&A as a percentage of revenue was 20.4% in the second quarter compared to 22.4% in the prior year, an improvement of 200 basis points
- Sales and marketing as a percentage of revenue was 21% in the quarter compared to 21.8% last year, an improvement of 80 basis points
- And R&D as a percentage of revenue was 8.6% as compared to 10.6% last year, lower by 200 basis points.

Before discussing our core growth drivers and performance metrics, let me quickly touch upon other GAAP and non-GAAP measures of our financials.

- Net loss increased from $15.1 million to $94.9 million compared to the prior year period. This increase is primarily driven by $119.3 million of stock compensation expense recognized during the quarter. Modification to the vesting terms of pre-IPO restricted stock grants caused higher stock compensation expense. Future expense related to unvested restricted stock amounts to $662.1 million as of June 30, 2021.
- Our growth translated to operating leverage with adjusted EBITDA increasing to $11.4 million from $5.5 million in the prior year period, an increase of 106%. Adjusted EBITDA margin increased to 10.7% from 7.2%; a 350 basis points increase year over year.
- Operating cash flows during the quarter also increased to $7.6 million from $6.3 million in the prior year period – an increase of 21%.
- Cash on the balance sheet increased to $113.6 million from $50.7 million as of December 31, 2020, primarily due to net proceeds from IPO.
- And finally, net working capital – defined by current assets less current liabilities – was $97.4 million as of June 30, 2021, increasing from $37.4 million as of December 31, 2020.

Now, let me transition to our core growth drivers and some of the performance metrics that contributed to our strong results.

As a reminder, we have five core growth drivers:

- First, growing ARPU and scaled customers, who we define as customers generating at least $100K in revenue over the trailing twelve-month period
- Second, investing in sales capacity, marketing, and building out our partnership ecosystem
- Third, scaling our newest product, Opportunity Explorer
- Fourth, launching new products to new markets and new buyers
- And fifth, expanding internationally

Our execution on each of these fronts is contributing to our improved outlook and progress toward our long-term model of greater than 25% revenue growth and at least 20% adjusted EBITDA margins. I'll discuss the KPIs for each growth driver during the second quarter.

Beginning with increasing ARPU and growing scaled customers. Last year's transition to a dedicated hunter / farmer sales team is working very well. Our belief that better customer experience translates to increased platform adoption is best evidenced through the lens of our ARPU growth, increased scaled customer count and record net revenue retention.

Starting with ARPU, during the second quarter the average revenue per scaled customer climbed to over $299,000, up 44% year to year. We grow ARPU by increasing platform usage, cross-selling new use cases and up-selling more channels on our platform. We have very interesting dynamics driving ARPU, which can be found on slides 13 and 14 in our supplemental earnings presentation on the IR website. These are as follows:

- First, the increase between a scaled customer's ARPU in year 1 versus year 3 is greater than 5X. This demonstrates the stickiness of our platform and leverage in our revenue model.
- Second, the increase in scaled customer ARPU for $100,000 to $1 million and greater than $1 million customers is 10 times. This reflects the significant opportunity to cross sell new use cases and up-sell new channels within the installed base. This opportunity alone is expected to be a $1 billion growth lever.
- And lastly, through the first half of 2021 we continued the trend of increasing the average number of channels utilized per scaled customer to 1.5 through June 30, 2021 from 1.4 in 2020 and 1.2 in 2019. This, in the setting of having over a dozen channels available on the platform. So, great progress with substantial incremental growth opportunity ahead of us.

In addition to ARPU expanding, we are also increasing scaled customer count. Scaled customers increased from 333 in the first quarter to 343 in the second quarter with both our $100K to $1 million and greater than $1 million customers increasing quarter to quarter.

Lastly, as you heard from David, during the second quarter Zeta realized a record net revenue retention rate in total and for scaled customers.

Our second core growth driver relates to increasing investment in sales, marketing and partnerships. During the quarter we made solid progress in building a repeatable, scalable sales engine and expanding our sales ecosystem to supplement our direct sales force.

First, with respect to our direct sales organization:

- Our 39% year over year growth was contributed evenly by hunters and farmers. New customers generated 20.3 points of year over year growth while existing customers made up the balance of 18.3 points.
- From a sales productivity perspective, win rates through the first half of the year have remained over 50% for total Zeta as well as for each of the three use cases – acquire, grow and retain -- that we sell our customers.
- Third party validation by Forrester, showing Zeta delivers 50% better results is certainly helping our sales efforts
- We are also realizing the benefit of assigning our sales team by industry expertise. As we gain foot holds in specific industries, we are leveraging those win plans deeper within the vertical. This has contributed to our strong industry growth rates, with 12 out of 15 industries growing double digits year to year in the second quarter.
- And as David highlighted, in addition to hiring our first CMO we also made major strides in growing our partnership ecosystem through our announcement with Dunn and Bradstreet.
- Not only does DNB become an important multi-year scaled customer, but our combined capabilities strengthen Zeta's ability to bring a 360-degree view of the consumer to our customers. This further differentiates Zeta from the competition and opens new opportunities in B2B and SMB.

Our sellers continue to have success using our newest product - and third core growth driver - Opportunity Explorer, as both a wedge product to land new customers and as an expand-extend tool with existing customers.

- In fact, we've seen the number of Opportunity Explorer product sales increase sequentially every quarter since Q1 2020.
- Importantly, revenue from these customers grow over time as Opportunity Explorer serves as door opener to the broader capabilities of the ZMP
- And we've begun to attach new features to Opportunity Explorer to further accelerate its land, expand, extend contribution to our growth.

Launching new products is our fourth core growth driver and as you heard from David, the pace of innovation and new product introduction by our product, data and engineering teams has never been faster.

The second quarter continued the trend of more revenue being driven Direct from the Zeta Marketing Platform, a major focus of the company. This is important since revenue generated by the ZMP has a higher mix of recurring revenue and better operating leverage characteristics.

We also saw all major channel categories grow greater than 25% year to year, with CTV growing 499% and continuing to hold its position as our fastest growing channel on the ZMP.

Wrapping up with the discussion around the last of our 5 core growth drivers, Zeta's international revenue grew at a robust 33% year to year in the second quarter.

- Of the core growth drivers, international expansion has the longest time horizon, but has significant upside since it represents just 6% of total Zeta's revenue today.
- Our ability to replicate our proven blueprint in the US with our existing footprint overseas is an exciting area of future growth and an expected major expansion of our $36 billion US TAM.

Transitioning to guidance, with our core growth driver momentum as a backdrop, our outlook for the year is improving.

With respect to revenue:

- We are guiding third quarter revenue to $108 million to $111 million, up 13% to 16% year to year as reported and up 17% to 20% after adjusting for $3 million of prior year Presidential Cycle revenue that does not repeat in the third quarter of 2021.
- For the full year, we are taking revenue guidance to $432 million to $436 million, up 17% to 19% year to year as reported and up 22% to 24% after adjusting for $15 million of prior year Presidential Cycle revenue.
- We believe adjusting out the $15 million impact of last year's Presidential Cycle -- $3 million in Q320 and $12 million in Q420 -- best produces an apples-to-apples comparison to measure our core growth performance.

With respect to adjusted EBITDA:

- From a profit perspective, in the third quarter we are guiding to adusted EBITDA of $13 million to $13.5 million with an adjusted EBITDA margin range of 11.7% to 12.5%.
- For the full year, our guidance for adjusted EBITDA is a range of $55.5 million to $57.5 million, up 43% year to year at the midpoint and representing an adjusted EBITDA margin range of 12.7% to 13.3%, up 225 basis points year to year at the midpoint.

Overall, our guidance for the full year is a reflection of continuing to aggressively invest in sales and innovation, while simultaneously expanding adjusted EBITDA margin and making steady progress toward our long-term targets of greater than 25% revenue growth and at least 20% adjusted EBITDA margins.

You can refer to our supplemental earnings materials on slides 18 and 19 for further details on our guidance, along with other reconciliations in the appendix.

Now, let me turn the call back over to the operator for David and me to take your questions. Operator?